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C O N F I D E N T I A L SECTION 01 OF 03 MANILA 002670

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STATE FOR EAP/EP, EB/TPP/BTA/ANA
STATE PASS USTR FOR BWEISEL AND DKATZ
STATE PASS USAID AND OPIC
TREASURY FOR OASIA FOR AJEWELL
USDOJ FOR MCRAWFORD
USDOC FOR 4430/ITA/MAC/DBISBEE

E.O. 12958: DECL: 06/09/2015

TAGS: [ECON](#) [EINV](#) [EFIN](#) [PGOV](#) [BEXP](#) [KCOR](#) [RP](#)

SUBJECT: PHILIPPINES CORRUPTION: BUSINESS LEADERS
CONCERNED ABOUT RP'S FUTURE

REF: A. MANILA 2578

[1](#)B. MANILA 2142

[1](#)C. MANILA 2103

[1](#)D. MANILA 1988

Classified By: Economic Counselor Robert Ludan.

Reasons: 1.4(b) and (d).

Summary

[1](#)1. (C) Influential members of the Manila business community increasingly express concerns about how corruption is undermining the RP's economic outlook. According to long-time Embassy contact Washington Sycip, who is widely respected as among the top economic observers in the country, corruption is at its worst ever and is making it impossible for democracy to work in the Philippines. President Arroyo's husband, he claimed, is one of the worst offenders, with a reputation for corruption seeping down to all levels of society and eroding PGMA's political standing. Francis Chua, president of the Federation of Filipino-Chinese Chambers of Commerce, claimed that almost all business people perceive worsening problems with corruption. He echoed Sycip's assessment that the First Gentleman is a major problem with respect to corruption. Makati Business Club Director Bill Luz, although generally more optimistic, said that for local businesses, "market realities dictate that it is time for the government to clean things up or for businesses to get out." He said that 2005-2006 is the year when things must change to avoid significant deterioration. Such assessments alarm potential foreign investors, making it even more difficult for the GRP to attract badly needed foreign capital. End Summary.

Corruption and Democracy

[1](#)2. (C) Manila business leaders have increasingly expressed serious concern about how corruption is hindering their ability to conduct legitimate business. Washington Sycip, a founding partner of SGV (the country's most prominent accounting firm and an affiliate of U.S. firm Ernst and Young) has become increasingly pessimistic, claiming privately that corruption nowadays is at its worst, surpassing even the Marcos era. He has expressed doubt about democracy's suitability for the RP. Emboffs strongly objected to Sycip's assertion that the RP should reconsider democracy, underscoring that the U.S. would not support any move to non-democratic leadership. Sycip has responded by pointing to countries in the region with stronger leadership, such as Singapore, Malaysia, and China, claiming they have made more progress in improving their citizens' well-being through non-democratic systems. Sycip has further argued that, in countries with per capita GDP under \$3000, Western-style democracy leads to cronyism and corruption. He pointed out that two out of the last five presidents elected here have been removed from office by non-democratic means, leading him to conclude that the Philippine democratic process is choosing the "wrong" leaders. Of special concern was corruption in the judiciary up to and including the Supreme Court, which has destroyed the constitutional system of checks and balances.

[1](#)3. (C) According to Sycip, First Gentleman Jose Miguel "Mike" Arroyo's behavior, in particular, is damaging the credibility of the government and hinders President Arroyo's ability to implement anti-corruption measures. Sycip claimed that Mike Arroyo is heavily involved in the illegal gambling or "jueteng" networks and closely connected with major smuggling syndicates (ref B).

President Arroyo, according to Sycip, is aware of her husband's misdeeds, but she is unwilling to do anything to curb his activities because he was instrumental in marshaling campaign donations and is now keeping those supporters in line to help her maintain her grip on power. This creates a practical difficulty for cabinet secretaries, because many of these supporters have been

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placed in key government jobs and "report directly" to the First Gentleman, bypassing the agency chain of command. (See also ref A regarding latest claims that the President's son, Congressman Juan Miguel "Mikey" Arroyo, is involved in jueteng racketeering.) Sycip has repeatedly expressed worries about the current government's stability. President Arroyo is more concerned about her ability to stay in office than developing a strategic approach to policy making, he critiqued. He noted that "it is not impossible that PGMA will be forced out in the next couple of years."

14. (C) In response to complaints about corruption, President Arroyo agreed to form an advisory group, of which Sycip is a member. The group has advised the GRP to abandon taxes on earnings and shift to taxing evidences of wealth because taxing expenditures "better suits" the Filipino character and will ensure better collection. It has advised the DOF to publicize the amount of VAT retailers collect and turn over to the government to dissuade underreporting. Sycip nonetheless has lamented that the GRP and PGMA, in particular, seem rarely to follow the advice of the group.

Finding Alternatives To Government Institutions

15. (C) According to the Federation of Filipino-Chinese Chambers of Commerce and Industry (FFCCCI) President Francis Chua, the Chinese-Filipino business community encounters corruption on a regular basis in the tax bureau, customs, and other government functions. (Note: The Chamber, although it represents only a portion of the business community, is one of the most influential economic voices in the country. End Note.) Corruption, he said, is increasingly undermining the ability of companies to operate efficiently in the RP. Despite GRP efforts to combat corruption, he said there is no indication that the situation is improving. According to Chua, almost no business people believe the GRP's claims that its efforts are achieving results. He echoed Sycip's claim that the First Gentleman is a major problem with respect to corruption, pointing to his links to "jueteng" and the many politicians and local officials involved in the illegal gambling racket.

16. (C) Chua added that the Chinese-Filipino community is losing confidence in the government, in particular the courts. The FFCCCI maintains an internal settlement process to resolve disputes among member companies because members have so little trust in the court system. This process is being used more frequently now as an increasing number of FFCCCI members see the courts as unreliable and unpredictable because of corruption. Chua said this corruption will probably not create immediate instability for the government, but it does make it more and more difficult to sustain economic growth. Capital flight is not yet a problem, he said, as Chinese-Filipino businesspeople continue to invest domestically in real estate, food industries, textile and garment production and business expansion in general. Many of their investments are scaled back, however, from what they would be in a clean market. Other FFCCCI members separately commented that they are more hesitant to invest in the RP than in the recent past. Chua and other FFCCCI members have said that almost none of the Chinese-Filipino business community is investing in the stock market, where volatility and non-transparency remain serious disincentives.

Trying To Make A Difference

17. (C) Bill Luz, Director of the Makati Business Club (MBC), optimistically noted that he sees more people jumping into the fray to battle corruption. The MBC, a collection of the RP's most prominent business leaders, spearheads an anti-corruption business coalition that, according to Luz, is gaining traction. Luz warned, however, that the stakes are getting higher every day. MBC's coalition focuses on fighting corruption by raising public awareness and applying pressure on corrupt officials. When MBC first started its campaign two years ago, the majority of business leaders Luz approached would not get involved because, he said, they did not believe it

would make a difference in how GRP officials conduct themselves. Luz said that situation has changed; pressure is now materializing because the level of corruption has hit the point where it is intolerable and market realities have dictated to local businesses that it is time to clean things up or get out. He called 2005-2006 "the year when things have to change."

18. (C) Luz said that people should watch the rumors swirling around the first family carefully. Regarding Mike Arroyo's involvement, Luz said he senses that the allegations will continue and sooner or later someone will come forward with clear evidence of wrongdoing. Although the President may be able to steer clear of any implications of personal wrongdoing, Luz said that there had been no previous instance in which a spouse's scandal did not damage or bring down his or her partner.

(Comment: The election to the Senate of former President Estrada's wife and son refute this claim, however. End Comment.)

19. (C) From the business perspective, Luz said the most damaging aspect of the intensifying rumors is the constant undermining of GRP credibility. He expressed some optimism about GRP efforts to improve tax collection, citing progress reported by the DOF. He said the business community in general has confidence in the economic leadership team now in place, but worries that entrenched interests may hinder their efforts to crack down on tax evaders and smugglers. He said that he does not foresee a violent backlash against enforcers, but that the risk would increase if the GRP improves the efficiency with which it prosecutes evaders; the odds in prosecutions still favor the accused, with stalling tactics usually leading to favorable outcomes. He called the current efforts "hand to hand combat" and said that the GRP really needs to "put someone in a cell." He cited quick fixes the GRP could employ, including freezing the assets of those being prosecuted to prevent them from leaving the country, as is now commonplace. Nonetheless, true change will only come with decreased caseloads for judges, especially for those courts trying corruption cases. Repairing the judiciary, however, which would require legislation and perhaps constitutional change, he observed.

Comment

110. (C) Clearly, serious minds are increasingly questioning the current administration's ability to lead the Philippines out of its difficulties. The irony is that, as they note, the government is doing more to combat corruption, but the problem is getting worse. Such assessments alarm potential foreign investors and may foreshadow serious growth problems down the road, as the government fails to attract outside investment and finds itself unable to adequately invest in the country's future.

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